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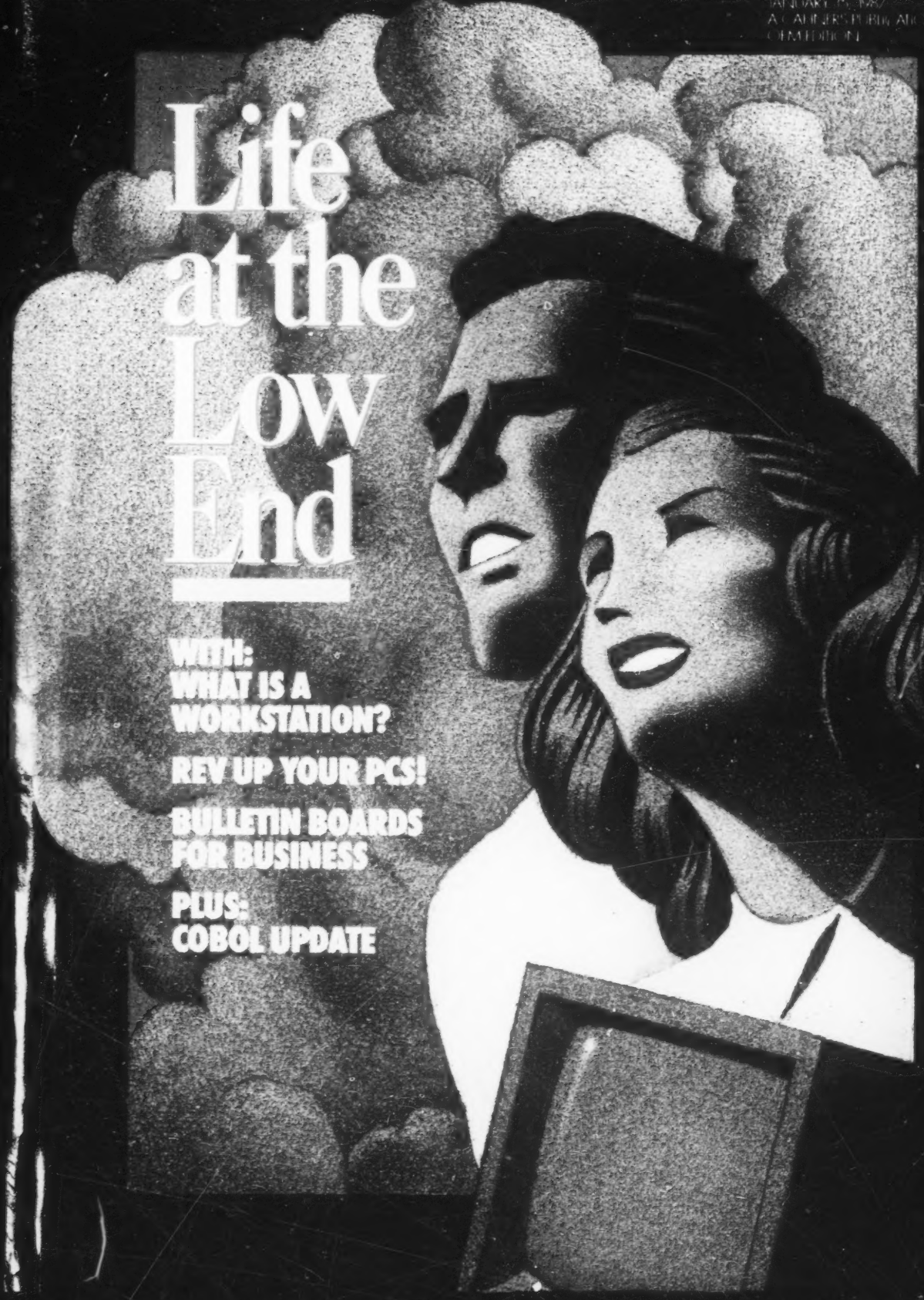
DATAMATION

JANUARY 15, 1987
A CAHNERS PUBLICATION
ONE DOLLAR



Life at the Low End

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REV UP YOUR PCS!

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PLUS:
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DATAMATION

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COVER ILLUSTRATION BY BILL NELSON

OEM EDITION

JANUARY 15, 1987
VOLUME 33
NUMBER 2

Editorial

Lo! The Low End

Forecasts? Forsooth! All too often, forecasts are fraught with predilections instead of predictions.

Having said that, we now confess to falling prey ourselves to the forecasting mania. We recently asked our editorial advisory board, comprised of esteemed gurus and practitioners of all industry segments, to share with us their own looks into the future. The exercise brought home one truth: not all crystal balls are compatible!

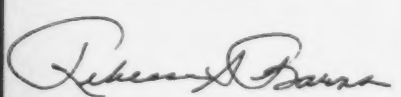
But since pcs are the theme for this issue, we can't resist sharing with you the observations on that market from Robert L. Patrick, the longtime DATAMATION advisor and industry consultant based in Southern California. As you read through our pc coverage, keep in mind Bob's sage and sagacious words. They give new meaning to our theme of "Life at the Low End."

"The pc boom is over," Bob writes. "All the pent-up demand has been satisfied. Sure, there are more sales to be made—maybe five times the total of what has already been sold—but these will not be the emotional impulse buys of the past. Rather, buyers will be *demanding* ease of training and installation, some reasonable form of support (not yet invented), and only slight impact on the productivity of the office.

"The pcs have touched a large population. Productivity lagged mightily while we learned to use them. Intellectual discipline was eroded and now stands at an all-time low. It will be years before our business institutions catch up and recover organizationally from all the amateur computer users the pc spawned. The primary vendors gave no consideration to the organizational impact of so many MIPS and megabytes in the hands of the user. The resulting disorganization will take years to correct. I'm almost ready to label the pc a disservice to mankind (though I confess to using one to write this!).

"The field needs education, training, and people—not rank amateurs who can use a pc, but seasoned leaders to help us assimilate what we have and lay the foundation for the next surge. These people are in short supply and are hard to grow.

"Bank your fires. We've got two years of winter before spring."



REBECCA S. BARNA
EDITOR

MERGERS

Are Three Heads Better than One?

"Niche marketing" is the battle cry of the new computer unit formed by Honeywell, Bull, and NEC.

BY SUSAN KERR

For Honeywell mainframe users, there's no question as to who's gaining the most from that company's sale of much of its computer business to Compagnie des Machines Bull of Paris and Nippon Electric Corp. (NEC) of Tokyo.

No, it's not the users. Nor is it Honeywell, which sold out for less money than many thought it could and should have gotten. Instead, some users quip, the grand prize winner is that old favorite, the Berlitz School of Languages.

"From what I've heard, a lot of Honeywell employees are taking quickie courses in French," says one user, who requested anonymity.

The common opinion of Honeywell followers and users is that it'll take more than proficiency in French to make this deal successful. Despite Honeywell officials' claims of "business as usual," Honeywell Information Systems (HIS) is going where no computer company has gone before. Its customers, employees, manufacturing facilities, and R&D labs are being swallowed up by the first computer entity owned jointly by U.S., European, and Japanese partners.

It may be the first with ownership that stretches east and west, but it's certainly not the first time a grand alliance has been formed to defend that increasingly rare turf known as the mainframe computer market. Unisys, to name the most recent example, has driven its flag into what it hopes is the high ground of the power of two. Unlike the Sperry-Burroughs conglomerate, Honeywell executives are not yet portraying themselves as potential IBM killers. Instead, the first order of business appears to be putting a stop to an eroding market share.

Honeywell, says Stan Lauck, president of the Honeywell Large System Users Association, "can't compete head-on with IBM as a mainframe vendor. They've stated they must coexist with IBM."

Lauck points out that HIS has been moving into niche markets. One is manufacturing, its parent company's strength. Others are local and county government and health care industries.

A Minicomputer Focus

HIS executive vice president Jerome Meyer, in a recent interview with DATAMATION, gives indications that that may be Honeywell's strategy. Much of the growth HIS is looking for won't come from Honeywell's traditional battleground: mainframes competing with IBM. Instead, HIS is counting on its recently announced DPS 6 medium-range minicomputers. "The mainframe market is growing at the 5% to 6% range," comments Meyer, "but all sorts of markets are spawning [elsewhere]. We are looking at our DPS 6 line as the product that takes us into new markets."

All three companies involved in this latest alliance have been longtime associates—NEC supplies Honeywell's top-of-the-line DPS 90, Honeywell owns more than 2% of Bull, Bull buys part of its DPS 7 computer technology from NEC, and so on—but joint ownership of a lagging computer company could be a unique challenge.

Meyer, while excited and optimistic about the new, as-yet-unnamed company of which he will be top manager, admits that "Clearly, NEC is a separate company and Bull is a separate company and they will have separate strategies. Honeywell, too, has its own strategies."

Funneling three parent companies' wishes, skills, and cultures into one company, therefore, is sure to be a challenge, but users say there really were few alternatives.

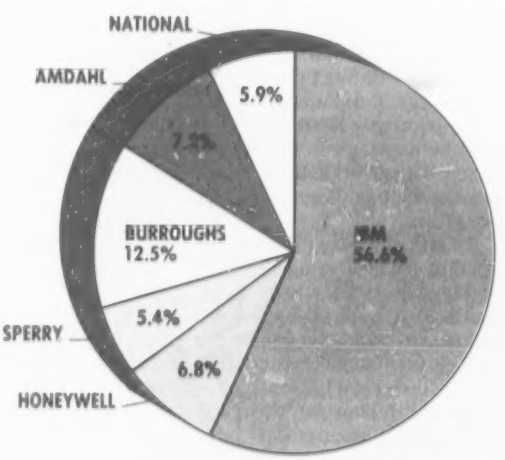
"It can't get any worse" than it was, says Kenneth Bodger, vice president of systems at McDonnell Douglas Corp., Torrance, Calif. "Honeywell hasn't had their heart in the computer business for the last four to five years and that was real obvious to the user. [Now] we'll have a commitment to doing a good job for the customer base that they'll want to protect.

"It will be interesting to see the remnants of the BUNCH and see how IBM takes advantage of it. And I'm sure they will. Users either want the security of the IBM name or [in some cases] some will feel foreign ownership is an issue."

As Bodger indicates, removing itself from day-to-day involvement with the sluggish computer industry has been a Honeywell goal. For the first nine months of 1986, HIS profits fell 39% from the same period a year earlier. By watering down its HIS interest, Honeywell is free to concentrate on its multibillion-dollar controls and aerospace concerns. To drive that point home, Honeywell recently purchased Sperry's aerospace unit for $1.03 billion.

Honeywell was so anxious to sell that for 57.5% (a 42.5% stake going to Bull and 15% to NEC) of HIS, it will gain only roughly $175 million in cash. Given HIS's 1985 revenues of $1.85 billion, the price Honeywell set "is a crime," says Kidder, Peabody & Co. Inc. assistant vice president Bahar Gidwani. Honeywell said late last month that as a

FIGURE 1 **Mainframe Market Share**



SOURCE: DATAQUEST INC.

result of taking a loss on the sale of a majority interest in Honeywell Information Systems to Bull and NEC, it would take after-tax charges against fourth quarter earnings of about $575 million, resulting in a 1986 loss of about $380 million.

A Fair Price?

Honeywell officials will say only that they think they got a fair price. Others claim NEC and Bull had slicker investment bankers, and that Honeywell, which so obviously wanted out of a languishing computer operation, was in no position to push up the price. Additionally, Francis Lorentz, Bull managing director, told DATAMATION in Paris that there was another potential buyer, which he refused to name.

"This operation was advantageous to both Bull and Honeywell [but we all were] in danger of losing out if the deal did not go through amicably," says Lorentz.

It's easier to see NEC's and Bull's interest in the venture. Neither wanted Honeywell in potentially unfriendly hands. By virtue of the pact, Bull and NEC each gains a ready-made U.S. distribution arm as well as easy access to Honeywell's blue-chip customer base of 10,000.

The three are in the process of sifting through product offerings and plans for possible overlaps. There are sure to be some, given their common computer platform built around the GCOS operating system.

A first possibility is that instead of each offering its own terminals, the new company will settle on one universal version, says Meyer. Another calls for NEC and Honeywell to settle on one personal computer offering for the U.S. Honeywell wants to offer NEC-designed compilers. There are many other such potentials for savings.

JEROME MEYER: Looking at niche markets.

Although the ties clearly are there, easy answers aren't. For now, HIS management will run the show, but Bull will have most of the say. A new nine-member board of directors will be set up, with Bull naming five directors, Honeywell three, and NEC one. Bull can, and probably will, pick up another 22.6% of HIS from Honeywell in 1988, say Honeywell insiders.

Bull control makes some nervous and Bull is sensitive to those concerns. "We will maintain the continuity of the existing management," says Lorentz. "There won't be many Frenchmen appointed to the company. Those that are sent over will be put there to strengthen relations. The firm must remain American."

Improvements Needed

One area that all Honeywell users say can stand improvement is new products. Although Honeywell over time has looked to remarketing products from Bull and NEC as a way to keep up-to-date, delays in enhancements is a loudly voiced criticism. For example, one user cites the seeming slowness in providing certain virtual memory capabilities—in particular, compilers for the GCOS 8 operating system. Another is that the new version of the DPS 8 system, first introduced a decade ago, is not expected to be unveiled until the latter part of 1987.

"Obviously the gain for the three of them is a collectively broader marketplace," says Bob Hench, vice president and general manager of information processing technology at General Electric Information Services Co., Rockville, Md., one of Honeywell's biggest customers. "The gain for us is that the stronger and healthier your vendor is, the better off you are. I'm also looking for a greater influx of new products."

Primarily, most users look to NEC to provide real technological leadership. Although not a concern of Hench's, others say their initial optimism for the deal was somewhat tempered by NEC's smaller than anticipated involvement.

A number of users contacted by DATAMATION say that when Honeywell first discussed the possibility of the three-way deal last fall, NEC was portrayed as becoming an equal partner.

"I guess I was hoping for a little stronger NEC participation," says Daniel Robert, senior vice president of information services, Coleco Industries, Hartford, Conn. "The only thing I can read into it is that it's all NEC had to put in to get what they wanted."

Although Honeywell officials say NEC did discuss a variety of equity positions, it is not known whether the Japanese giant planned all along to take no more than a 15% interest. The officials stress that NEC and Honeywell will continue work on a new high-end mainframe, a follow-on to the DPS 90, to be unveiled in the next few years. One of NEC's top goals in investing anything was making sure nothing interrupted that development or marketing of the current DPS 90.

Product development may be the easiest task for the new company. Marketing issues are a different matter.

The new consortium's first job is expected to be holding onto current customers and then attracting new buyers. Joe Alexander, Honeywell director of software product marketing, points out that NEC's emphasis has been on the engineering and scientific communities, whereas Honeywell has concentrated on commercial applications. HIS probably will follow NEC's lead and target more scientific users in the future, he says.

Applications Needed

A big task will be pressing for more third-party development, without which HIS is doomed. Even users association president Lauck comments that "One serious deficiency Honeywell had was application software. It will be an uphill battle. It's a matter of ensuring third-party vendors that the marketplace will be there. The R&D dollars the three companies can put together may be a big help."

"IT CAN'T GET ANY WORSE" THAN IT WAS.

But some current customers might not hold on. "I've not found Honeywell very reliable in what they say," charges Bobbi Ozier, chief of computer systems management divisions at the Army's Military Traffic Management Command, Oakland, Calif. "Releases, in particular of operating systems, take a long time." Her base is operating under a contract with

Honeywell that concludes in 1992. Pressed as to whether she'd choose Honeywell again, Ozier says, "I personally wouldn't."

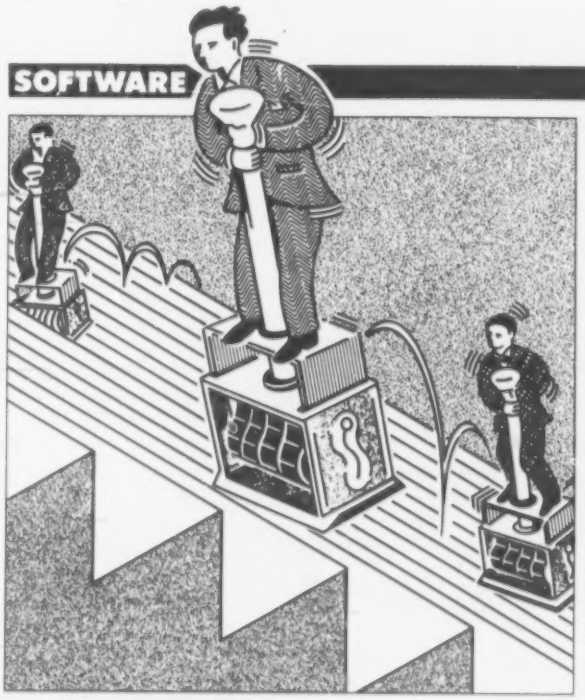
Honeywell may face competition within its own ranks. Honeywell is expected to be the largest customer for the new company, buying systems for internal data processing, reselling systems to the federal government (Honeywell's $250 million Federal Systems Division was left out of the deal due to concerns about foreign ownership), as well as bundling Honeywell computers with Honeywell control and industrial automation systems. As to the latter two, Meyer denies speculation that other Honeywell divisions will stop buying Honeywell gear once the deal goes through.

"There is documented commitment" that Honeywell will continue buying systems from the spun-out group, says Meyer. Yet, third-party developers say they are receiving cautious inquiries from other Honeywell divisions to the possibility of using external equipment. Roger Schell, president of Gemini Computers Inc., Carmel, Calif., is one of them. Gemini supplies Intel Corp. microprocessor-based systems to users with high-security requirements. Honeywell's Federal Systems Division is now "a potential customer. A year ago they weren't," says Schell.

Yet, Honeywell may have gained more than it lost. "To me," says Kimball Brown, a Dataquest Inc. industry analyst, "the three most 'feared' competitors of IBM are DEC, Tandem, and NEC. Though I don't think IBM's scared of anybody, these three present the chance of being problems. It should be interesting." ■

Correspondent James Etheridge in Paris assisted in the reporting of this article.

SOFTWARE



Taking the Cue from Big Blue

Independent software companies are picking up the beat of IBM's new software pricing policies.

BY JEFF MOAD

Users trying to determine exactly how IBM's October introduction of graduated pricing for mainframe software will affect their future software costs may want to wait a bit before totaling up all the pluses and minuses. If the signals coming from the industry's third-party software suppliers are any indication, MIS managers are going to have a lot more graduated pricing to factor into the equation later this year.

Most mainframe third-party systems software suppliers are planning to follow IBM's lead in switching from a policy of standard, one-time charges per product on VM and DOS/VSE systems software to one based on the power of a user's hardware, with users of larger systems paying significantly more than those running entry-level machines. That means by the third quarter of next year, when IBM starts shipping its new midrange 9370 system in volume, the majority of IBM VM and DOS users—those with 3083 systems and below—will enjoy lower one-time charges on systems software from third parties as well as from IBM. It also means users of large IBM 3081, 3084, and 3090 systems running VM and DOS will face higher one-time price tags on all systems software as third-party companies copy IBM in raising charges to high-end users to compensate for price cuts at the low end.

And it looks as if VM and DOS systems software pricing isn't all that will change. Most third-party software vendors contacted recently by DATAMATION expect graduated pricing to become the norm for applications programs as well as systems software. Moreover, all indications are that graduated pricing eventually will make its way into the MVS/XA and MVS/SP operating system environments.

First to react will be systems software third-party vendors with products running under VM and DOS/VSE. Companies such as VM Software, Reston, Va., and Computer Associates, Garden City, N.Y., are actively planning to adopt pricing policies based on cpu size. "We have already decided we're going to participate in the 9370 market, so we pretty much have to go to some kind of value-pricing structure to compete," says VM Software marketing vice president Ronald Kral. "It's one thing to sell a $50,000 piece of software to someone running a $7 million 3090, but someone running a $300,000 9370 is going to say, 'Wait a minute.' We have to consider lowering the price if we want to sell to him, which we do."

Cuts at the Low End

Likewise, Computer Associates "probably will do something to come up with value pricing based on system size," says ceo Charles B. Wang. "We have to do something if we don't want to end up out of line with hardware prices at the low end." Both Kral and Wang say their companies are likely to have graduated pricing in place by IBM's 9370 shipping date.

Also drawing up graduated pricing plans are third-party vendors Sterling Software Inc., Dallas; Pansophic Systems Inc., Oak Brook, Ill.; and Cincom Systems, Cincinnati. Eventually, says analyst Scott Smith of Donaldson, Lufkin & Jenrette Securities Corp., "They all [third-party soft-

ABSTRACT

If IBM's competitors can offer nationwide service and support, reducing the risk to resellers, vars will be even more "pro-choice." Compatibles from AT&T, Compaq, Unisys, Zenith, and other clone makers comprise approximately 36% of the systems resellers carry. As part of its new pitch to vars, Apple emphasizes its investment in getting applications written for the Mac. Resellers offering alternatives to IBM often install Big Blue's PCs only when the customer demands them.

Micro Dissent

BY ESTHER SURDEN

"We're mad as hell and we won't take it any more."

So say the exasperated prime-time tv viewers in the movie *Network*. Like those viewers, value-added resellers are telling IBM and the compatible makers to shape up.

Vars are defecting from Big Blue's micros to more cost-effective compatible boxes, forsaking the IBM brand name and with it, the company's restrictions on who can be a var. They are also organizing to present a single voice to the industry so they can influence the kind of equipment manufacturers offer and the margins they receive on systems sold through the third-party channel.

Whether or not IBM is listening to the grumbling in the industry is anyone's guess. But the sheer number of vars who are electing to go to IBM's competitors should make all vendors sit up and take notice.

IBM IS NO LONGER A PREREQUISITE.

Timothy Williams, director of channels and market analysis for Dallas-based Future Computing Inc., says that when end users are willing to live without IBM's label, vars will be on the lookout for better margins. If they can avoid IBM's bureaucracy and rules, they will. Further, if IBM's competitors can offer nationwide service and support, vars will be even more pro-choice.

Resellers are becoming increasingly militant about the treatment they are receiving at the hands of all vendors, and IBM seems to get the lowest marks, adds International Data Corp.'s var market analyst Kenneth Hoyt. "Many var programs are there just to act as pacifiers to the [resellers] when, really, very few [vendors] care very much about the interests of the vars.

"Certainly, vars have been squeezed on margins and had policies instituted so that cross-channel conflict is increased rather than reduced," says Hoyt. "Obviously, the margins are better with IBM PC clones, and if resellers are not going to get anything in addition to the margins—such as a partnership—there is no reason for them to stay with the big brand-name manufacturers."

Mark Forrest, executive director of the Society of Industry-Oriented Professionals (SIOP) in Bristol, Pa., an organization recently formed to promote the interests of resellers, echoes Hoyt's concerns: "In general, vendors consider the reseller channel not to be a channel at all, but rather an interference with their two primary methods of doing business—the retail store and direct sales. IBM is doubtless the worst offender, but it is not the only offender. Right now, we represent some $20 billion to $30 billion worth of business, and we believe that where there were two channels, there will soon be three."

SIOP maintains that by banding together, resellers can persuade manufacturers to provide the bells and whistles they need on the machines they sell to end users and to deal fairly with the reseller channel. A hidden threat to the society, however, is that vars with a great deal of business will avoid the major manufacturers and let contracts overseas to have systems built to the resellers' specifications.

"While the number one reason we've chosen to go with compatibles is price/performance, a secondary reason

is availability," says SIOP member Richard R. London, president of London Computer Inc. in Bristol, Pa. "IBM just doesn't make it easy for anyone to become an IBM dealer. It wants some very large and, in our opinion, unreasonable sales commitments in order to carry [the IBM] product. We are able to sell systems from ITT, Sperry, and AT&T without committing a quarter-million or a half-million dollars to a particular computer model." London adds, "The compatibles are coming out with enhancements faster than IBM is."

Open Architecture May Close

Always lurking in the background, of course, is the possibility that IBM may begin to close what has been an open PC architecture, leaving vars who develop systems around compatible machines out in the cold for the next generation of personal computers. Some observers say that the agreement executed in September between Intel Corp. and IBM for semiconductor technology exchange could lead to custom-made PCs, creating longer and more costly development cycles for clone makers and confusion among vars who have gone with compatibles.

Indeed, compatibility with a previous system is the leading reason why users choose a particular personal computer, according to the results of the 1986/87 DATAMATION/Cowan & Co. Institutional Services mini/micro computer survey (see "Minis, Micros, and Maturity," Nov. 1, p. 65). The survey also shows, however, that IBM PC compatibles have benefited from a shift in priorities by users.

Specifically, price is a significantly more important factor than it was a year ago, the survey finds. Price is second only to compatibility with a prior system and, for the first time, ranks ahead of the availability of software. Product reputation and supplier viability, two of IBM's long suits, also dropped in importance. Although only about 8% of the 6,886 survey respondents were vars, resellers also consider price a major factor in choosing a system to market.

A recent survey of nearly 2,900 vars conducted by Future Computing confirms that resellers are beginning to favor the lower-priced microcomputer alternatives. This survey found that compatibles from AT&T, Compaq, Sperry, Zenith, and other clone makers comprise approximately 36% of the systems resellers carry—a respectable turnout for machines that aren't supposed to have made much of a splash in the third-party channel. The rest of the vars mentioned minicomputers, noncompatibles, or multi-user systems like Altos. Significantly, the one vendor identified by DATAMATION's survey of mini/micro users as the only real alternative to IBM—Apple Computer Inc.—came up short in the Future Computing var survey.

That's probably because vars who operate through retail channels, Apple's primary third-party outlet, are underrepresented in the files, says Erna Arneson, formerly with Future Computing and now manager of Apple's var channel. Until Arneson was brought on board, Apple's approach to resellers was low-key at best. Some people wondered if the company actually had a var program at all, although one was formally initiated in 1983-84, and salespeople were out there selling to vars.

BRAND LOYALTY IS BATTERED BY PRICE.

"There was not much depth behind it," Arneson admits. "It was just a nominal effort to recruit vars or to put the companies that were not retail into a distribution group. Last year, beginning in October, was the first time Apple made a large commitment in terms of staff and resources," and put the full weight of management behind pursuing vars.

Apple is aware that it doesn't have the kind of broad product line that usually appeals to vars, or the kind of product line that can really compete head-to-head with IBM in broad-based industries. As a result, the company will concentrate its efforts in industries where Apple products have an edge. According to Arneson, these include design-oriented industries, such as fabric design, architecture, and housing layouts, where the graphics features of the Macintosh may make it desirable for a var to use a closed system like the Mac as opposed to the open, MS/DOS-based PC compatibles.

Emphasizes Mac Applications

As part of its new pitch to vars, Apple emphasizes its investment in getting applications written for the Mac. "We have a really strong developer support program," says Arneson. The firm has created special conferences for vars and developers. In fact, Arneson notes, "all vars become developers once they sign up, so they get technical notes, technical communiqués, and become part of the AppleLink communications network."

Apple recently set up a fund that resellers can draw from to do their advertising. "They can spend up to $5,000 pre-accrual dollars," says Arneson. Also under development is a davar (dealer-associated value-added remarketer) program, designed so that smaller vars can go to dealers and both will have their margins protected.

Apple reseller Roy Endres, vice president of marketing for Peoria, Ill.-based Multi-Ads Services Inc., is one reseller who spurned IBM and the compatibles because of the technical qualities of the Apple product. Endres gives high marks to the machine's user interface, which enables people to be "productive in a short period of time.

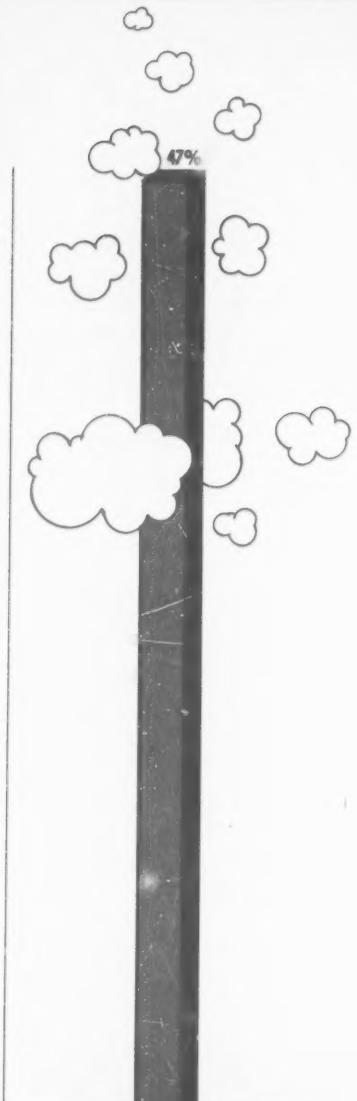
"We give our users a two-day seminar, and they are up and running on the machine," he says. Multi-Ads places the Macs in the advertising departments of newspapers, magazines, and radio stations so that media managers can search a database of cooperative advertising in order to design customized ad programs for potential retail clients.

Endres isn't worried that the rest of the world operates in MS/DOS. "It's not really a problem. Not one of our users has told us they'd like to run their MS/DOS programs on it." In fact, he argues, resellers ought to look at the application and choose the right machine for the job, rather than worry about de facto standards.

Like Apple, another company that didn't show up in the Future Computing study was Tandy Corp. Yet the Fort Worth-based company is also pursuing resellers aggressively and says it presently has between 200 and 300 on its roster.

Tandy sells largely through its retail Radio Shack Computer Centers, although it has created special programs for vars. "Vars shouldn't come to us unless they want to make profits on their products," boasts Jim Roberts, manager of value-added resellers for Tandy.

"We are in a unique position compared with other manufacturers, in that since we own such a giant retail distribution network, we have a lot to say about the street price of the product," Roberts comments. "Other manufacturers can only establish a list price and some sort



of agreement to establish a discount off of the list. But the street price has nothing to do with the suggested list."

Tandy also provides nationwide service through its own service facilities, a plus for some resellers who prefer to deal with the company selling the hardware rather than a third-party maintenance contractor or freelance repair personnel.

The chief reason why Stenograph Corp., a marketer of transcription systems, decided to do business with Tandy rather than IBM is that Tandy is more interested in doing business, says Brian E. Boyd, vice president of marketing services for the Chicago-based var. Tandy exhibited "an eagerness" to provide the hardware, Boyd says. Tandy also provides "discount levels early so you can go out to get the hardware" as soon as possible.

"We also believe we get more box for the dollars. The Tandy product we use is faster than the AT," he adds. Asked about product availability, Boyd says it isn't a problem.

Stenograph went through almost all of the steps to become an IBM-approved dealer and can offer its court reporting system on IBM AT hardware. But customer acceptance of the cheaper Tandy-based system has been great. "We've been selling these since the beginning of August, and no one has asked for IBM," says Boyd.

Of course, compatibility was a factor, because Stenograph's customers needed to be able to run IBM-compatible software and they also needed to be able to deliver their manuscripts on a formatted diskette. The Tandy product fulfilled those needs.

Same Program to Vars, Dealers

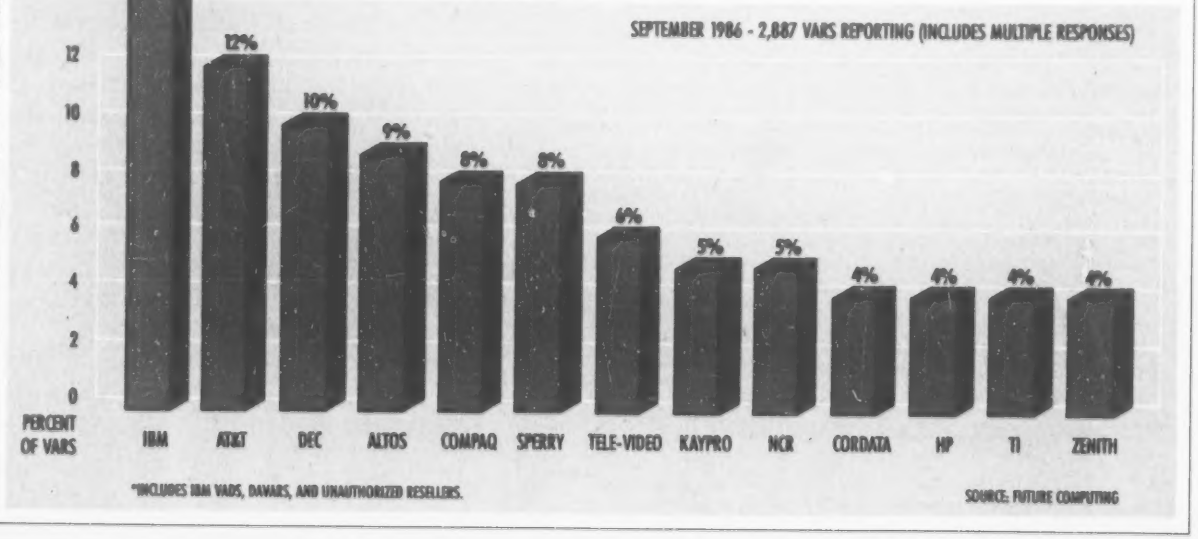
Still another microcomputer manufacturer, Panasonic Corp., Secaucus, N.J., offers its 125 vars the same program it makes available to its dealers: volume discounts, co-op ads, and promotions. In addition, the company provides one year of technical support, gives vars the right to purchase service kits, and offers a 24-hour component swap if something goes wrong. Third-party service is provided through Diebold.

According to Ruth Weiss, president of Advanced Computer Technology, an Alexandria, Va., company that integrates systems for businesses and homes, the Panasonic alternative allows the company to offer more function at a lower price. Price was the primary factor in choosing Panasonic's computers, but features were a close second, Weiss says.

Where IBM offers many components as add-ons, Panasonic includes them in the purchase price, she explains. Volume discounts aren't limited to a particular model of personal computer, so resellers can more easily qualify for them, Weiss adds.

AT&T's var channel is extremely important to the company's marketing strategy, says Eric R. Nahm, general manager for value-added sales. The company has a two-tier approach, with about 1,000 distributors and master vars in the

FIGURE 1 **Leading Micro/PC Brands Carried by Vars**



top tier and about 200 direct vars on the second level. To be an AT&T var, resellers have to do about $2 million in business annually. While most vars sell the Unix products, many also sell AT&T's IBM-compatible pcs.

"We have broadened the program so our resellers can sell our entire product line, and discounts are based on an aggregated contract," says Nahm. "We encourage them to focus on vertical markets and both the large and small participants in these markets."

AT&T recently strengthened its var channel by discontinuing standalone direct sales from the company. The direct sales force now refers all inquiries to resellers and receives commissions for doing so. Thus, AT&T salespeople aren't competing with the firm's var channel.

In a world where vars are constantly searching for products that will give the best price/performance, AT&T wins hands down, says Kenneth Pond, president of the PROCOM Group Inc., New York.

Pond will continue to provide his general purpose business software on IBM systems when, for compatibility with existing systems, a customer demands he do so. But for new users, PROCOM clearly prefers AT&T products. Much of PROCOM's work involves communications, which is much easier and more cost-effective to implement on AT&T computers, Pond points out.

While product price and performance were PROCOM's reason for choosing AT&T, the company's ability to pass technical expertise on to its vars was another. "It's without parallel in the industry," Pond declares.

Further, he's sold on AT&T's approach to vars. "IBM has constricted the reseller channel by trying to impose the standards of an IBM blue label on all var products through their extensive approval methods," Pond explains. AT&T, on the other hand, "has successfully engaged the market," he says. "AT&T qualifies reseller organizations but doesn't try to approve their software the way IBM does."

Marbeth Shay, another AT&T reseller, suggests that the viability of a company should be the primary selection criteria. Shay, who is president of East Coast Computer Systems in Red Bank, N.J., has cast her lot with AT&T's Unix systems. "Products come and products go—so you'd better go with the one that will be around the longest," she says.

Has No Policy for Vars

Compaq Computer Corp.—the leader in the compatible industry—has no value-added reseller policy. The company authorizes dealers but has no way of tracking who adds value to what. Nevertheless, an increasing number of Compaq users are value-added resellers, whether the company acknowledges this or not. Sometimes, they pass as dealers; other times, they are volume users who purchase through Compaq dealers.

Still another popular clone maker, Zenith Data Systems, is just now reaching out through its dealer network to find out who its vars are and expects to have a formal reseller program set up this month.

All of these manufacturers are finding themselves in a world where brand names mean less and less. Wilson Thom-

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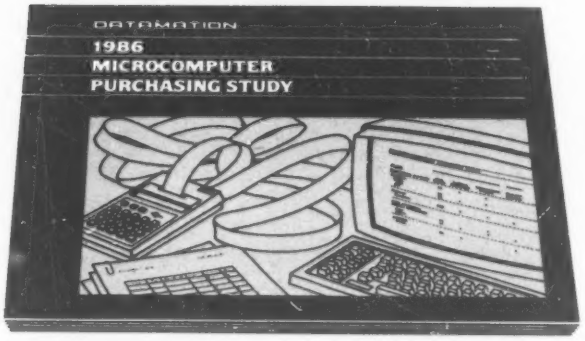

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as, president of Dart Technologies Group in Houston, is typical of a reseller who has no brand allegiance. His main criterion for selection of equipment is what his customers in the insurance, construction, and personnel industries will accept.

As a result, Thomas has installed systems from Compaq, Leading Edge, and, when nothing but the IBM label will do, from Big Blue. "Sometimes we go with IBM, but other times they'll ask us to use the cheapest thing we can find," the reseller says. Compatibility is rarely a factor any more, he notes. Occasionally, graphics packages have problems transferring from one compatible machine to another, but Dart's accounting-oriented software does not.

Since Thomas doesn't achieve the volume necessary to qualify for discounts from the vendors, he makes his deals with local computer retail outlets. "We have an agreement with the computer stores that, in exchange for a discount, we don't worry them with service and support. We take care of our own problems." Service is provided either by the user if he is sophisticated enough to handle it himself, or by freelancers to the local customers—arrangements that seem to work out well.

Cheaper Systems May Open Doors

Vars may find that choosing a less expensive system may open more doors for them, getting their systems into companies that might not have considered automating at a higher price. Los Angeles-based Technoplan Corp. is one reseller that has taken this route.

Technoplan recently qualified for the Leading Edge var program. The primary motive for choosing the non-Blue label? David Hashemi, partner in the company that provides construction and service station systems, says, "The evolution of the market has reached the point where people are educated enough to see that there is actually no difference between the Blue Chip computer and a clone." He adds, "It was so hard for so many companies to justify the purchase of a system at $18,000 to $20,000, with value added. The price can be brought down into the $10,000 range, a much more easily justifiable number when a compatible is used."

Hashemi and his brother, Ken, have installed IBM computers in situations where the customer has demanded it. "Usually, if a company has a CPA, they won't go with anyone but IBM. But when we are dealing directly with the president of a small firm and can demonstrate considerable savings to that chief executive, we can go with Leading Edge." ■

Esther Surden is a freelance writer and editor based in Guttenberg, N.J.